



Investment Office

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-3400

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AGENDA ITEM 4a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Responsible Contractor Annual Report
(July 1, 2007 – June 30, 2008)
- II. PROGRAM:** Real Estate
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

In accordance with the approved CalPERS Responsible Contractor Program Policy, (RCP) this agenda item reports program compliance for fiscal year 2007-2008 to the Investment Committee. Attached is the consolidated RCP annual report for all CalPERS Real Estate investment partners (Attachments 1-3).

Also included in this agenda item are updated program activities associated with RCP complaints, bid notifications and new program initiatives.

The RCP applies to all domestic real estate partners, single family real estate investments, joint ventures and partnerships where CalPERS has a greater than 50% ownership interest (and associated advisor or partner and subcontractor contracts and bids arising out of those investments). Compliance information presented in this agenda item is limited to contracts of \$50,000 or greater. Contract and payment information provided herein is based on annual reports submitted by real estate partners.

Total Real Estate

For the fiscal year 2007-2008, CalPERS Real Estate program achieved 95.7% compliance with RCP goals and requirements. Real Estate program investment partners awarded in excess of \$3.4 billion in RCP contracts for the reporting period. Staff remains dedicated to promoting increased compliance of the RCP. Please see Attachment 1 for since inception performance of the program. This agenda item reports compliance of the Housing program partners separately from the balance of the real estate investment partners.

Real Estate Investment Partners

The domestic Core and Non-Core real estate investment partners, to whom the RCP applies, excluding the Housing partners, utilized responsible contractors for 99.3% and 93.2% respectively. The successful compliance rate is calculated using all qualified operating expenses and qualified tenant improvements and other capital expenditures. This represents a combined compliance of 95.1%. Please see Attachment 2 for partnership level reporting of compliance with the program.

Housing Program Partners

For the fiscal year 2007-2008, Housing program partners awarded 96.1% of all qualified capital expenditures to responsible contractors. Please see Attachment 3 for Housing program partnership level reporting.

Responsible Contractor Complaints

For the fiscal year 2007-2008, staff logged one complaint. The complaint logged for this reporting period has been investigated and resolved consistent with RCP guidelines. The current complaint and resolution are detailed in Attachment 4.

Responsible Contractor Certifications

For the fiscal year 2007-2008, all real estate investment partners have certified in writing that to the best of their knowledge, they have complied with the RCP and more specifically with the roles and responsibilities stated within the RCP.

Notification

The Real Estate Unit's investment partners and other stakeholders have been working together in the spirit of cooperation to promote consistency, and to improve the bidding opportunity notification process. Staff has encouraged the use of websites and e-mail communication as the preferred notification methods. Of the Real Estate Unit's twenty-nine participating RCP partners, twenty-one have launched websites, and eight have established e-mail notification processes. Please see Attachment 5 for investment partners notification methods. Real Estate staff recognizes the importance of timely notification to ensure the inclusion of responsible contractors in the bidding process, and believes that the use of e-mail notification and websites is an important tool to promote the goals and objectives of the RCP.

Responsible Contractor Program Policy Review

Staff has initiated a process for discussion and evaluation of elements of the RCP. To date, staff has held separate round table discussions with investment partners and labor representatives, and a joint round table discussion for the purpose of airing comments and concerns, and soliciting comments in writing on improvements to the RCP.

Staff intends to present findings from the round tables to the Investment Committee, as well as recommendations for revisions to the RCP as appropriate.

V. STRATEGIC PLAN

Goal IX to achieve long-term, sustainable, risk-adjusted returns by thinking creatively with respect to new investment opportunities and ensuring the sustainability of the portfolio returns.

VI. RESULTS/COSTS

Since the Program's inception, a total of \$20.0 billion out of \$24.5 billion in qualifying expenditures have been awarded to responsible contractors as defined by the RCP adopted in June 1994. On-going administrative costs are not known, as the partners do not report separately to CalPERS for costs associated with the administration and compliance of the program.

Katherine Fox
Investment Officer

Laurie Weir
Portfolio Manager

Theodore Eliopoulos
Senior Investment Officer

Anne Stausboll
Interim Chief Investment Officer